

Message Text

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E.O. 11652: N/A

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SUBJECT: GENTLEMEN'S AGREEMENT ON EXPORT CREDIT

1. THE FOLLOWING IS AN AGREED MINUTE OF THE MEETING HELD IN WASHINGTON ON JULY 10 AND 11 BETWEEN THE EC, JAPAN, CANADA AND THE U.S. ON THE SUBJECT OF EXPORT CREDITS. THIS INFORMATION IS NOT FOR DISSEMINATION OUTSIDE USG CHANNELS.

2. QUOTE: REPRESENTATIVES OF THE NINE MEMBER COUNTRIES AND THE COMMISSION OF THE EUROPEAN ECONOMIC COMMUNITY (EC), JAPAN AND THE U.S. MET IN WASHINGTON, D.C., JULY 10 AND 11, 1974. THE OBJECT OF THIS MEETING WAS TO CONTINUE DISCUSSIONS ON A GENTLEMEN'S AGREEMENT ON MINIMUM INTEREST RATES AND MAXIMUM LENGTH OF CREDIT FOR EXPORT CREDITS. AT THE INVITATION OF THE U.S., A DELEGATION FROM CANADA PARTICIPATED IN THE WORK, ALTHOUGH THE CANADIAN GOVERNMENT HAD NOT HAD AN OPPORTUNITY TO CONSIDER THE GENTLEMEN'S AGREEMENT.

3. QUOTE: MINIMUM INTEREST RATE - ALL DELEGATIONS WERE PREPARED TO SET THEIR MINIMUM INTEREST RATE AT SEVEN PERCENT APPLYING TO EACH CREDIT LONGER THAN TWO YEARS. MOST DELEGATIONS BELIEVED A MINIMUM RATE IN EXCESS OF SEVEN PERCENT WOULD BE DESIRABLE. THIS MINIMUM RATE IS DEFINED AS THE MIXED RATE (U.S. AND JAPAN) OR, ACCORDING TO EUROPEAN SYSTEMS, AS THE FINANCING RATE FOR FINANCIAL CREDITS OR THE REFINANCING RATE FOR SUPPLIERS CREDITS AND NOT THE CONTRACT RATE TO BE PAID BY THE BENEFICIARIES OF THE CREDIT, AND EXCLUDING ALL BANK COMMISSIONS, OTHER THAN THOSE ALREADY TAKEN INTO ACCOUNT FOR CALCULATING PUBLIC MEASURES, AND EXCLUDING INSURANCE PREMIUMS. THE MAJORITY OF DELEGATES STATED THIS MINIMUM INTEREST RATE SHOULD BE SUPPLEMENTED BY AN AGREEMENT ON AN AVERAGE REAL COST OF EIGHT PERCENT (ALL BANK CHARGES AND INSURANCE PREMIUMS INCLUDED) FOR ALL THE CREDITS CONCERNED. JAPAN EXPRESSED DIFFICULTIES IN ACCEPTING THIS ADDITIONAL OBLIGATION IN VIEW OF THE DIFFERENCES IN THE SYSTEMS OF EXPORT INSURANCE BETWEEN COUNTRIES. THE U.S. EXPRESSED A PREFERENCE FOR MINIMUM INTEREST RATE OF EIGHT PERCENT AND AN AVERAGE REAL COST OF NINE PERCENT. SOME DELEGATIONS SUGGESTED THE POSSIBILITY OF PROVIDING AS A COMPROMISE SOLUTION A MINIMUM INTEREST LIMITED OFFICIAL USE

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RATE OF 7.5 PERCENT AND AN AVERAGE REAL COST OF 8.5 PERCENT.

4. QUOTE: MAXIMUM LENGTHS OF CREDIT - ALL REPRESENTATIVES INDICATED A WILLINGNESS, IN PRINCIPLE, TO SEEK AN AGREEMENT LIMITING THE MAXIMUM LENGTH OF CREDIT TO 8-1/2 YEARS FOR ALL BUYERS WITH THE EXCEPTION OF DEVELOPING COUNTRIES FOR WHICH THE LENGTH OF CREDIT WOULD BE 10 YEARS. THE DISTINCTION BETWEEN THE TWO GROUPS OF COUNTRIES MIGHT BE MADE ON THE BASIS OF AN INDICATIVE LIST OF "DEVELOPING COUNTRIES"

OF THE DAC, ELIMINATING, HOWEVER, THE COUNTRIES WHICH NOW HAVE A RELATIVELY HIGH PER CAPITA GNP. THE REPRESENTATIVES WILL STUDY HOW SUCH A PER CAPITA INCOME LIMIT MIGHT BE APPLIED. FOR PURPOSES OF AVOIDING A SOFTENING OF EXISTING TERMS, A MAJORITY OF REPRESENTATIVES EXPRESSED A PREFERENCE FOR AN ADDITIONAL LIMIT FOR CREDITS OF FIVE YEARS APPLYING TO COUNTRIES WHICH, ACCORDING TO AN OBJECTIVE CRITERIA LIKE PER CAPITA GNP, CAN BE CLASSIFIED AS WEALTHY. THE U.S. INDICATED THAT IT WAS UNABLE TO ACCEPT THIS ADDITIONAL LIMIT FOR THIS AGREEMENT. THE EC STATED THAT IT WOULD CONTINUE ITS WORK IN ORDER TO BE IN A POSITION TO MAKE A CONCRETE PROPOSAL.

5. QUOTE: EXCEPTIONS - (A) INTEREST RATE - ALL REPRESENTATIVES EXCEPT THOSE OF JAPAN WISH NOT TO CONCEDE EXCEPTIONS. JAPAN EXPRESSED THE DESIRE TO GRANT INTEREST RATES SLIGHTLY LOWER THAN THE MINIMUM RATE FOR CREDITS INTENDED TO FINANCE EXPORTS DIRECTLY LINKED TO IMPORTS OF CERTAIN NATURAL RESOURCES (MINERAL AND TIMBER). THE OTHER REPRESENTATIVES REQUESTED THE JAPANESE TO RECONSIDER THEIR PROPOSAL.

(B) LENGTHS OF CREDIT - THE EC PROPOSED THAT, APART FROM CASES OF MATCHING, THE ONLY ADMISSIBLE EXCEPTIONS WOULD BE THE OECD SECTOR AGREEMENTS CONCLUDED OR NOW UNDER NEGOTIATION (GROUND SATELLITE STATIONS, NUCLEAR POWER PLANTS, SUBSONIC AIRCRAFT AND SHIPS). JAPAN EXPRESSED A DESIRE TO BE ABLE TO CONCEDE LENGTHS OF CREDIT IN EXCESS OF 10 YEARS FOR CREDITS FOR PROJECTS DESCRIBED IN (A) ABOVE. THE OTHER REPRESENTATIVES REQUESTED THE JAPANESE TO RECONSIDER THEIR PROPOSAL. THE U.S. STATED THAT IT WISHED TO INCREASE THE LIMITED OFFICIAL USE

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SECTORAL AGREEMENTS BEING PRESENTLY NEGOTIATED (AIRCRAFT, NUCLEAR POWER PLANTS) TO INCLUDE PROPOSED AGREEMENTS ON LOCOMOTIVES, GAS TURBINES, AND OTHER LARGE POWER PLANTS AND STEEL MILLS. THE EC STATED THAT SECTOR AGREEMENTS FOR STEEL MILLS AND GAS TURBINES WERE DIFFICULT TO ACCEPT AND, IN ANY CASE, FOR ALL SECTOR AGREEMENTS (REACTORS INCLUDED) THE MAXIMUM MATURITY SHOULD NOT EXCEED 10 YEARS. THE U.S. ALSO STATED THAT THERE MAY BE OTHER LARGE PROJECTS WHICH MAY REQUIRE A LENGTH OF CREDIT EXCEEDING 8-1/2 YEARS. THE U.S. STATED IT WOULD DEFINE THESE PROJECTS MORE CLEARLY. THE EC REQUESTED THAT THE U.S. RECONSIDER ITS POSITION IN ORDER THAT THE EXCEPTIONS BE LIMITED TO AS FEW SECTOR AGREEMENTS AS POSSIBLE.

6. QUOTE: OTHER TERMS - SOME REPRESENTATIVES EXPRESSED A BELIEVE THAT THE AGREEMENT SHOULD ALSO INCLUDE LEASING. OTHER ELEMENTS OF EXPORT CREDIT SUCH AS DOWNPAYMENT AND

LOCAL COST FINANCING WERE ALSO MENTIONED.

7. QUOTE: OTHER PROVISIONS - MOST DELEGATIONS AGREED THAT THE GENTLEMEN'S AGREEMENT WOULD BE EFFECTIVE THREE MONTHS AFTER THE TIME IT WAS CONCLUDED. PRIOR NOTIFICATION OF WITHDRAWAL SHOULD BE ADDRESSED TO OTHER PARTIES, IF POSSIBLE, 45 DAYS IN ADVANCE.

8. QUOTE: ALL DELEGATIONS EXPRESSED THE DESIRE TO CONCLUDE A GENTLEMEN'S AGREEMENT AS RAPIDLY AS POSSIBLE. THEY HAVE OBSERVED THAT DISCUSSIONS IN WASHINGTON, D.C., MADE IT POSSIBLE TO ESTABLISH A CONSENSUS ON THE FRAMEWORK OF THE GENTLEMEN'S AGREEMENT AND TO CLARIFY A LIMITED NUMBER OF PROBLEMS FOR WHICH OPTIONS STILL REMAIN OPEN AND ON WHICH DELEGATIONS NEED TO CONSULT THEIR GOVERNMENTS IN ORDER TO REACH A FINAL CONCLUSION. DISCUSSIONS WILL BE RESUMED THE 10TH AND 11TH OF SEPTEMBER IN BRUSSELS. END QUOTE. INGERSOLL

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